

NATIONAL BANK OF EGYPT

REPORT OF THE FIFTY-FIFTH ORDINARY GENERAL MEETING

1954

NATIONAL BANK OF EGYPT

Established by Khedivial Decree 25th June 1898.

Central Bank in virtue of Law No. 57/1951

HEAD OFFICE: CAIRO.

C.R. No. 1

CAPITAL L.E. 3.000.000 — RESERVE FUNDS L.E. 3.000.000.

BOARD OF DIRECTORS :

Mr. ALY SHAMSY, President.

Mr. MOHAMED AMIN FIKRY, Governor

Mr. CHERIF SABRY

Mr. SADEK WAHBA

Mr. G. M. ALLEMANN

Mr. TAHER EL LOZY

Mr. MOHAMED AHMED FARGHALY

Mr. SADIK HENEIN

Mr. YUSSOUF ZULFICAR

Mr. MARCEL VINCENOT

Mr. ALLAM MOHAMED

Mr. ABDEL RAHMAN HAMADA

Dr. HELMY BAHGAT BADAWI

Mr. SAYED MAREI

Mr. ABDEL GALEEL EL EMARY

Secretary to the Board Mr. A. EL MANKABADI

Government Commissioners :

Mr. MOUSTAPHA MAHMOUD EL KOUNI

Mr. AHMED MAHMOUD ABOUL ELA

Auditors :

Mr. ZAKI HASSAN, A.C.A.

Mr. J. SCOTT-SMITH, C.A.

Chartered Accountants

Dr. ALY EL GREITLY, Deputy Governor.

Mr. E. PRESS, M.C., Sub-Governor.

Dr. AHMED NAZMI ABDEL HAMID, Sub-Governor.

BRANCHES & OFFICES : Cairo, Alexandria, Port-Said, Khartoum (Sudan), London.

AGENCIES : Al Mahalla Al Kobra, Assiut, Assuan, Benha, Beni-Suef, Chebin-el-Kom, Damanhour, El Gedaref (Sudan), El-Obeid (Sudan), Fayoum, Heliopolis (Cairo), Ismailia, Keneh, Luxor, Mansourah, Minieh, Musky (Cairo), Omdurman (Sudan), Port-Sudan (Sudan), Rod-el-Farag (Cairo), Sohag, Soliman Pasha (Cairo), Suez, Tanta, Wad Medani (Sudan), Zagazig.

SUB-AGENCIES : Abou-Tig, Atar-el-Nabi, Beni-Mazar, Deyrout, Edfu, Esneh, Fashn, Kafr-el-Zayat, Maghagha, Manfalout, Mellawi, Samalout, Tokar (Sudan).

RESOLUTIONS

I.

Approval of accounts of the financial year ended 31st December 1954.

The Assembly unanimously passed the accounts for the fifty-fifth financial year, ended on the 31st December 1954, and gave the Board its discharge for the said year.

II.

Declaration of Dividend.

The Assembly unanimously adopted the proposals of the Board to pay for the financial year ended the 31st December 1954, a dividend of 20% on the capital, i.e., £ 2.— per share.

An interim dividend of P.T. 40 having been paid on the 1st September 1954, there remains to be distributed a balance of P.T. 160 per share, payable, subject to taxation, as from the 24th March 1955.

III.

Confirmation of the appointment and re-election of Directors

The Assembly ratified the provisional appointment made by the Board of Messrs. Dr. Helmy Bahgat Badawi and Sayed Marei and re-elected Mr. Mohamed Ahmed Farghaly.

IV.

Election of auditors for the year 1955 and fixation of their fees.

The Assembly unanimously elected Messrs. John Scott-Smith and Zaki Hassan as Auditors for the year 1955.

Their fees have been fixed at £ 3,500.

V.

Authority to the Board of Directors in respect of Donations

The Assembly unanimously decided to grant the Board of Directors a general authority to approve donations in conformity with, and within the limits prescribed by clause 40 of law No. 26 of 1954.

Secretary
HASSAN EL NAHAS

Scrutators
MOHAMED AHMED ABOUD
MOUSTAFA BAGHDADI

President
ALY SHAMSY

Report of the Directors

TO BE PRESENTED AT THE
FIFTY FIFTH ORDINARY GENERAL MEETING OF THE SHAREHOLDERS
to be held at the Head Office of the Bank in Cairo,
on Wednesday the 23rd of March 1955 at 4.30 p.m.

The Directors present to the Shareholders the Balance Sheet and Profit and Loss Account for the year ended 31st December 1954.

The Gross profit for the year, after providing for depreciation on the Bank's buildings and furniture, for rebate of discount, for doubtful debts and contingencies, amounts to L.E. 2,404,298,444

After deducting from this sum:

For Directors' Fees L.E. 19,208,219

For Current Expenses L.E. 1,754,325,365 L.E. 1,773,533,584

there remains... .. L.E. 630,764,860

In conformity with Article 51 of the Bank's Statutes a dividend of 4% is payable on the Share Capital L.E. 120,000,000

After this distribution there remains L.E. 510,764,860

Adding to this the balance brought forward from last year L.E. 289,276,336

the amount available is L.E. 800,041,196

From this amount the Directors recommend the payment of an additional dividend of 16% on the Share Capital, which will absorb L.E. 480,000,000

and to carry forward the balance L.E. 320,041,196

The total dividend for the year will thus be at the rate of 20%. An interim dividend of 4% having been paid on the 1st September 1954, there remains to be distributed the balance of 16% which will be paid less taxes in accordance with existing laws.

BALANCE SHEET 31ST DECEMBER 1954

ISSUE DEPARTMENT.

LIABILITIES		L.E.	MM.	ASSETS		L.E.	MM.
Notes Issued...		195.000.000	000	Gold ...		60.552.606	439
				Egyptian Government Treasury Bills ...	L.E. 49.118.000, ⁰⁰⁰		
				Foreign Government Treasury Bills ...	L.E. 31.473.000, ⁰⁰⁰	80.591.000	000
				Egyptian Government Securities ...	L.E. 13.543.799, ⁸¹¹		
				Foreign Government Securities ...	L.E. 40.312.593, ⁷⁵⁰	53.856.393	561
		195.000.000	000			195.000.000	000

BANKING DEPARTMENT.

LIABILITIES		L.E.	MM.	ASSETS		L.E.	MM.
Capital ...		3.000.000	000	Egyptian Government Treasury Bills ...	L.E. 31.882.000, ⁰⁰⁰		
Reserve Fund:	L.E.			Foreign Government Treasury Bills ...	L.E. 28.035.557, ⁷²⁵	59.917.557	725
Statutory Reserve ...	L.E. 1.500.000, ⁰⁰⁰			Egyptian Government Securities ...	L.E. 6.834.770, ³⁰²		
Special Reserve ...	L.E. 1.500.000, ⁰⁰⁰	3.000.000	000	Foreign Government Securities ...	L.E. 62.070.188, ⁷⁴⁰		
Egyptian Government ...		7.099.736	510	Other Securities... ..	L.E. 616.796, ⁹⁵⁴	69.521.755	996
ditto Special Account ...		55.000.000	000	Advances to Commercial Banks in Egypt and Sudan		12.940.000	000
(Art. 14 of Law 57 of 1951)				Other Advances... ..		7.901.321	355
Sudan Government ...		8.576.681	499	Bills Discounted... ..		1.396.253	506
Commercial Banks in Egypt and Sudan ...		33.518.815	069	Clearing and Other Accounts (Payments Agreements)		4.756.665	890
Clearing and Other Accounts				Foreign Banks and Money at Call... ..		19.753.164	678
(Payments Agreements) ...		16.056.044	183	Cash:			
Current, Deposit and Notice Accounts... ..		52.546.789	286	N.B.E. Notes	L.E. 12.604.814, ²⁵⁰		
Sundry Other Liabilities		10.576.673	938	Other Notes and Coin	L.E. 100.287, ⁹⁵⁷	12.705.102	207
Profit and Loss Account, Balance carried forward...		320.041	196	Premises		100.000	000
				Sundry Other Assets... ..		702.960	324

Contra Accounts:

Credits Opened and Letters of Guarantee issued, etc. L.E. 24.100.267,⁴⁰⁶

189.694.781 681

Contra Accounts:

Clients' Liability for Credits Opened and Letters of Guarantee issued, etc. L.E. 24.100.267,⁴⁰⁶

189.694.781 681

ALLAM MOHAMED
Director

ALY SHAMSY
President of the Board

MOHAMED AMIN FIKRY
Governor.

REPORT OF THE AUDITORS.

We have examined the Books of the National Bank of Egypt and in our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs as shown by the Books. We have also verified the Cash, Notes and Securities at the Head Office and at the Cairo and Alexandria Branches and have found the same correct. The London Returns have been audited and certified by Messrs. DELOITTE, PLENDER, GRIFFITHS & Co., Chartered Accountants.

Cairo, 28th February 1955

J. SCOTT-SMITH
R.A.A. 43 } Chartered Accountants.
ZAKI HASSAN
R.A.A. 2 }

PROFIT AND LOSS ACCOUNT

Dr.		L.E.	MM.	Cr.		L.E.	MM.
Directors' Fees ...		19.208	219	Gross Profit for the the year ended 31st December 1954 after providing for depreciation on buildings and furniture, for rebate of discount, for doubtful debts and contingencies ...		2.404.298	444
Current Expenses ...		1.754.325	365	Balance brought forward from last year ...		289.276	336
Interim Dividend at the rate of 4% p.a. ...		120.000	000			2.693.574	780
Provision for payment of final dividend at the rate of 16% p.a. ...		480.000	000				
Balance carried forward...		320.041	196				
		2.693.574	780				

ADDRESS BY THE PRESIDENT OF THE BOARD AT THE ANNUAL GENERAL MEETING.

General
Review.

During the year 1954 the economy of Egypt was marked by stability combined with stimulating effort.

The steps taken to restore healthy conditions in the cotton market at the beginning of the 1953/54 season have borne fruit. By steadily disposing of its stocks of cotton the Government has improved its financial position and ensured a balanced budget on sounder lines. Moreover, the balance of trade, although still unfavourable, has manifestly improved owing to the fall in imports which was partly attributable to the imposition of higher customs duties, but mainly to a considerable reduction in imports of wheat as a result of a more abundant local crop. These developments were naturally reflected in our balance of payments. The improvement recorded in 1953 steadily continued, and the deficit of that year finally turned in 1954 into a small surplus, mainly due to receipts from invisibles. This rendered it possible to maintain our reserves of foreign currencies unimpaired.

Internal prices remained fairly stable, reflecting the stability of world prices. The prices of some foodstuffs showed an upward tendency but the rise did not bring about an increase in the official indices of wholesale prices and the cost of living, because some of the other components of these indices showed a downward curve.

The feeling of uncertainty and anxiety which prevailed in the business world in 1953, upon which we commented in the previous report, was considerably dispelled in 1954. This is evidenced by the upward trend in stocks and shares which started in May and continued throughout the year, particularly as regards the shares of industrial and commercial companies. Although the index of security prices did not reach the level of 1951, not to mention that of 1946, yet last year was the first time that the market had shown any real recovery for three years. Considering the extraordinary sus-

ceptibility of our Stock Exchanges to the political climate, this is indeed significant. The development of the industrial activity of the country was equally noticeable. Except in the case of certain industries, where the level of stocks is still high, the prospects of Egyptian industry are on the whole hopeful.

Amidst all these favourable economic conditions, a number of large-scale development projects have finally taken shape and are about to be carried out. Some of them are now being realised. Priority has been given, with good reason, to the expansion of agricultural production and its related industries. A comprehensive development plan has been laid down which will materialise over several years. It covers the improvement of crops and the extension of irrigation projects as well as the more ambitious aim of increasing the cultivable area of the country by one quarter. The Authorities have also devoted their attention to industrial development. A number of industrial schemes have been studied and are now on their way to execution.

To finance part of this development programme, the Government wisely had recourse first to internal loans, of which three were recently floated and were covered with surprising rapidity, showing gratifying support from small investors. However, as they are insufficient to finance the vast development schemes contemplated, the participation of foreign capital is essential in spite of the appreciable grant of \$ 40 million recently allocated to Egypt by the United States.

All these efforts have inspired the country with a sense of definite progress. This progress, however, must not let us lose sight of the two fundamental conditions governing the tasks that lie ahead, namely, the stability of our currency and the maintenance of confidence.

For despite the achievement of a balanced economy, the danger of inflation may loom once more if the ordinary budget receipts and savings fail to finance the large development projects together with the permanent social services and recourse is made to an expansion in the note circulation. Sooner or later the cost of living would inevitably rise as a result of excessive increases in the money supply over a number of years, and the purchasing power of our currency, which the Government has laboured to maintain during the past two years, would be threatened. This would bring a great deal

of distress to the majority of the population since salaries and wages normally lag behind the steadily soaring cost of living. Fortunately, the Authorities are fully aware of all such dangers.

The progress achieved in the past year is largely due to the restoration of confidence. It is obvious that a sound and homogeneous policy based on political stability is a sine qua non of the continuation of such progress. The consolidation of this cardinal principle is the surest guarantee of economic development.

With regard to our relations with foreign countries, it is incumbent on us to work towards freer exchanges. A basic step in this direction would be the simplification of the exchange system in order gradually to adapt it to the recent developments in most countries with which we have permanent commercial and financial ties.



Agricultural Production.

Taken as a whole, agricultural production increased substantially compared with that of 1953. Rice in particular was extremely abundant as the crop increased by 70%, mainly due to a 40% increase in the cultivated area. The wheat crop increased by 10% owing to a higher yield. In spite of a larger acreage of about 19%, the cotton crop slightly exceeded that of the previous year, amounting to 7,246,000 cantars (second estimate), an increase of about 5%. The crop was affected by fairly serious attacks of pests. On the other hand, the maize and millet crops declined owing to a reduction of the cultivated area although the yields were very satisfactory.

The Agrarian Reform is being carried out satisfactorily. The authorities supervising its execution are careful to see that the production of the distributed lands is maintained. Furthermore, efforts are being made in some regions to carry out a programme of social reconstruction by providing healthier dwellings, organising medical treatment and bettering hygienic conditions in rural districts.

The Agrarian Reform Committee is doing its utmost to solve the problems arising from small land tenure by various measures, such as supplying agricultural equipment, granting

loans and furthering the sale of the crops. Hence its interest in promoting agricultural co-operative societies, by demonstrating their material advantages. While it is necessary to increase the number of co-operative societies, nevertheless they cannot produce results in Egypt or elsewhere unless the peasantry is imbued with the co-operative ideal, which will require time, patience and a great deal of tact.

The distribution of the Agrarian Reform Loan bonds is continuing but unfortunately rather slowly, doubtless owing to the difficulties experienced in the examination of the title deeds. It is to be hoped that these formalities will be completed more rapidly in order to speed up delivery of the bonds.

Cotton.

The present cotton season, beginning 1st September 1954, was characterised by irregularity. On the one hand the demand for cotton came at intermittent periods and on the other, cotton-growers were not too anxious to sell their crop. This is due to various causes which explain the difference in trend between the present and the previous season.

The optimism which reigned at the opening of the present season perhaps stemmed from the increase in exports during the 1953/54 season as well as from the small carry-over from last season. The estimate of the new crop was $8\frac{1}{2}$ million cantars, but it fell short of this figure by about $1\frac{1}{4}$ million cantars. The carry-over from last season being $1\frac{3}{4}$ million cantars, the total stock at the opening of the present season amounted to 9 million cantars approximately, against $10\frac{1}{2}$ million cantars at the beginning of the previous season.

On their part, cotton-growers were in no hurry to sell their crop as they had the assurance that the Egyptian Cotton Commission would be ready to buy it at a price about 10% higher than that of last season. They had also been offered generous credit facilities on the security of the crop. Similarly, some buyers of Egyptian cotton abroad were granted long-term credits at a relatively low rate of interest. The combination of all these factors helped to maintain a local cotton-price at a higher level than international market prices, especially for Ashmouni and Giza 30. This became evident particularly after the publication of the results of the American estimate last December which put the crop at 13 million bales, as against an estimate three months earlier of only 11 million bales.

Though the statistical position of our short staple cotton appears weak, the situation as regards long staple is much more satisfactory. The total of existing stocks does not cause any anxiety. However, the object of Government intervention since last season has been to ensure the steady sale of cotton. It is therefore imperative that this object should be realised without delay or deviation through unfavourable conditions which it would not be difficult to remedy.

The slackness of foreign demand for Egyptian cotton is due to a number of causes. Several foreign countries still held fairly large stocks at the opening of the season, while the British Cotton Commission sold its own stock at Liverpool at prices lower than those of Alexandria. On the other hand, the size of world stocks, especially in the U.S.A., coupled with the export facilities offered by that country, does not encourage foreign spinners to speed up their purchases of our cotton.

All the foregoing considerations call for reflection mainly concerning the position of Ashmouni and the lower grades of Giza 30, for it is important that we should not lose our traditional clients. We must always bear in mind the attraction of American cotton prices as well as the increasing volume of the cotton-crop in other countries which may gradually enable them to meet their own needs. Thus it is expected that the cotton-crop of the U.S.S.R., now estimated at 22 million cantars approximately, will be doubled within the coming three years. Moreover, textile-producers in Western Europe are disturbed by Indian and Japanese competition. It is therefore obvious that the price factor will be decisive in determining the sale of our crop in the future, particularly of short and medium-staple cotton.

The question of re-opening the Futures Market at Alexandria is still under consideration. Although it is unanimously agreed that the continued closing of the Futures Market and the absence of hedging facilities hamper the normal marketing of cotton, nevertheless many people are of opinion that the radical changes in the structure of the international cotton trade call for caution before any measure could be taken in that respect. They base their view on the fact that in the past there was a relative equilibrium between the power of purchasers and that of sellers and it was possible to a certain extent to forecast the objectives of the dealers. Today, however, transactions are subject to varying forms of government control

which cannot be foreseen or counteracted by the traditional methods of a free market.



Exchange Rates

It is precisely these changes in economic conditions which obliged Egypt to introduce, not without reluctance, Exchange Control in 1939 and more recently to intervene in the cotton market; otherwise she would have found herself defenceless in the international scramble for markets. This policy of state intervention naturally hampered the free operation of the law of supply and demand and had a particular effect on the rates of exchange.

Generally speaking, we can state that this policy succeeded in achieving its main objects through the conclusion of bilateral agreements and the appearance of multiple exchange rates for the Egyptian pound ("B" accounts and "Export Account" Egyptian pounds and finally the "Entitlement" account). However the policy of Government intervention, which was intended to protect the country from internal and foreign economic disturbances, has revealed many shortcomings. The solutions it offered for these difficulties were only temporary and often improvised to meet situations as they arose. This has eventually led to discriminatory measures and many complications which in the long run tend to prove almost insuperable, at any rate from the administrative point of view. Such conditions cannot be considered as a lasting basis for the conduct of our foreign trade. In the past the control did help the country to overcome the critical phase it was passing through. Now the time is ripe for a gradual return of foreign trade to the normal channels and an attempt must be made to simplify and unify the present regulations.

A first step has been taken in this direction leading to the abolition of the Export Account. Perhaps consideration should be given to going a step further and rendering the different kinds of Egyptian pound and non-resident accounts mutually transferable, thus establishing a single Egyptian pound quoted on the international exchange markets.

However, it is also advisable, as far as possible, to create a uniform and well co-ordinated system of exchange control

imposed on imports and exports and to simplify the tortuous formalities which are so baffling to traders, if it is undesirable that they should become virtually dealers in exchange.

If this measure is taken it would no doubt help to define more clearly the sphere of competence of the Exchange Control Administration and would relieve it of the responsibility of making decisions involving it directly in foreign economic policy.

Although the time is not opportune for the total abolition of exchange control, these suggestions are intended to provide the existing control system with more suppleness and freedom. Since the closing of the Cotton Futures Market and the fixation of prices by the Government, the flexible link between the international cotton market and Egyptian cotton has been assured to a large extent by the fluctuations in the rate of exchange of the Egyptian pound. When circumstances permit the return of normal conditions to the local cotton market, it will be easier to curb fluctuations in the exchange rate of the Egyptian pound as a first step towards the gradual return to a fixed parity.



Industrial Activity.

Industrial production was marked by increasing activity in most fields throughout the year, particularly in the textile, sugar and cement industries. Last season Egyptian spinning mills consumed 1,630,000 cantars of cotton, a record figure which is 100,000 cantars higher than that of the previous season. It is worthy of note that Egyptian spinning mills have doubled their consumption of cotton during the last ten years.

In the course of last year, the Government took several measures conducive to the promotion of industrial enterprise, notably fiscal and customs exemptions, facilities for obtaining foreign exchange at the official rate with a view to importing machinery, and special legislation designed to encourage the investment of foreign capital in the country. The expanded contribution of the Industrial Bank to industrial concerns should also be mentioned in this context.



The deficit in the balance of trade for 1954 was smaller than that of previous years. This is mainly due to the decrease in the value of imports, especially wheat. Last year Egypt imported wheat worth L.E. 2½ million against an average of L.E. 23 million in the past five years. This affected the total value of imports which amounted to L.E. 160 million in 1954 against L.E. 177 million in 1953. The value of exports being L.E. 138 million in 1954 (against L.E. 137 million in 1953), the deficit in the balance of trade was about L.E. 22 million against L.E. 40 million in 1953.

A preliminary estimate of the balance of payments indicates a surplus for 1954 of about L.E. 5 million as against a deficit of L.E. 8 million in 1953. This favourable balance is due to a surplus from invisibles and reveals the necessity for encouraging fresh sources of income such as tourism and the investment of foreign capital in the country.



In spite of the tangible increase in our agricultural and industrial production, the overall picture is not completely satisfactory. Bearing in mind the steadily increasing population, productivity must be accelerated faster than hitherto, even though this economic remedy only partially solves an endemic problem.

To realise this aim, the development projects cover four fields of activity: agriculture, industry, mining and communications. The total cost of these projects is estimated at approximately L.E. 280 million to be spread over ten years. It is expected that 80% of this amount will be allotted to agricultural development and 10% to industry. This gives an idea of the magnitude of projected investment. The construction of the High Dam alone will cost L.E. 180 million. The National Production Council expects an increased cultivable area as a result of this project of 1,300,000 feddans and also the conversion to perennial irrigation of a further 700,000 feddans. To these figures must be added the appropriations for the reclamation of the new land as well as for schemes of reconstruction and public utilities which are expected to exceed L.E. 100 million. This is no doubt an ambitious programme. Yet we must be under no illusions. Unless industrial expansion and the development of communications go hand in hand

with agricultural development, the increase in the cultivable area will only serve to maintain the population's existing standard of living which is already abnormally low, so far have we lagged behind in the past.

The financing of these projects naturally raises a number of serious problems which will certainly bear upon the stability of our currency as well as our reserves of foreign exchange.

It is clear that, at present, the budget receipts and savings are not sufficient to meet all the expenditure envisaged. On the other hand, as there are limits to the extent to which new taxes may be imposed, recourse might be made to an increase in the availability of credit. Such an increase is a most delicate matter, considering that the stability of prices necessitates the constant maintenance of equilibrium between the money supply and the rate and volume of production.

Special attention must be called to the effect of the economic development programme on our foreign exchange reserves. Almost half of the total cost of the development programme, i.e. about L.E. 140 million, must be paid for in foreign currency for the importation of the necessary machinery and equipment. The greater part of this sum is expected to be spent in the next three or four years.

At first sight it would appear that our holdings of foreign currency, which amount at present to about L.E. 213 million, not counting our gold reserves valued at nearly L.E. 61 million, are sufficient to meet the requirements of the development programme. Nevertheless, it must be remembered that our balance of payments, favourable last year, might turn adverse, especially when the first phase of the programme is carried out. Furthermore, a large part of our reserves, amounting to L.E. 132 million, is still blocked in the United Kingdom, which necessitates maintaining our resources in foreign currency at a level sufficient to cover the eventual deficits in current transactions and to ensure the stability of our currency, particularly as Egypt, being an exporter of agricultural products, is exposed to frequent fluctuations in the proceeds of exports.

While confident that Egypt will dispose of part of the foreign currency required for the financing of the projects, the help of foreign capital is most necessary, especially in the early stages of the economic development programme. It is hoped that, in the second stage, the new production of fertilizers, iron and steel, added to the increased volume of petro-

leum products and the larger cereal crops, will eventually lead to a reduction of our imports and consequently to a decrease in our external trade deficit.

However, our main purpose is to ensure that the development programme is conceived and conducted on sound lines and that it maintains a proper balance between the various sectors of development, due attention being given to a judicious choice of priorities. The total costs of the programme must also be within our means so as to avoid a reduction of certain categories of budgetary expenditure which are considered necessary even though they may be economically unproductive. As regards our balance of payments, it is not advisable to counteract a possible deficit by re-imposing restrictions on imports. To return to this policy would be incompatible with the present obvious trend in most countries towards greater freedom in foreign trade. We would also run the risk of retaliation on the part of other countries.



The Central
Bank

The Central Bank continued during 1954 to perform its function, namely, the provision of credits necessary to the banking system as well as public and semi-governmental institutions. In this way it helped to finance a number of productive projects.

At the end of last December the total advances of clearing banks amounted to L.E. 145 million compared with L.E. 115 million at the end of 1953. This is due to the increasing demand for credit to finance the cotton crop. Banks were able to meet these additional calls for accommodation in three different ways: reduction of their cash reserves with the Central Bank; partial liquidation of their holdings of Egyptian Treasury Bills; and borrowing from the Central Bank.

Bankers' deposits in the Central Bank decreased considerably before the opening of the present cotton season. To allow the banking system to promote economic expansion it thus became necessary to reduce the ratio of cash reserves with the National Bank to sight liabilities. This proportion was in fact reduced from 15% to 12½% effective September 1954.

In order to encourage commercial banks to invest in Treasury Bills, the Bank showed its readiness to re-discount

Treasury Bills presented by banks at a rate lower than the official discount rate but slightly higher than the market rate. The Bank also re-discounted commercial bills to a greater extent.

It was further decided that the National Bank would make no charge for the transfer of funds on behalf of other banks to their accounts with our offices in the interior. This measure would normally encourage other banks to reduce their charges.

The Bank has adhered to its set policy, dictated by its Statutes as well as the Central Bank Law, of gradually abstaining from smaller commercial operations. An analysis of the Bank's balance sheet at 31st December 1954 illustrates the part it played as Central Bank of the State and the restricted character of its commercial operations.

Apart from the issue of notes, which is one of the natural functions of the Central Bank, we find that most of the deposits consist of the current accounts of both the Egyptian and the Sudanese Governments, those of banks in Egypt and the Sudan, the clearing accounts of foreign banks and other accounts of various financial institutions and foreign banks of issue, as well as those of semi-governmental institutions such as municipalities and the Postal Savings Bank. These are deposits which are traditionally held by the Central Bank. Private deposits do not exceed L.E. 28 million at 31st December 1954, i.e. 24% of the aggregate of current accounts while 38% represents accounts of L.E. 10,000 or more. The total of deposits with the commercial banks amounted to about L.E. 175 million at the same date.

Funds invested in Government Treasury Bills and Securities, advances and re-discounts to banks, advances to foreign banks of issue and funds held abroad as external reserves, all these reflect the functions of a Central Bank. Advances to private individuals and to companies do not exceed L.E. 8 million, i.e. 3% of the total funds employed. It is noteworthy that this figure includes credits of more than L.E. 4 million granted to cotton-exporters and L.E. 3 million represents advances each exceeding L.E. 250,000. The total of small loans amounts to only L.E. 800,000 and they are gradually running off.

It must not be assumed, however, that the Bank intends to withdraw completely from the market, for it is in duty

bound to make credit available in times of financial stringency and to intervene when necessary to influence the rates of interest. In this respect the Bank has finally succeeded in convincing other banks to agree upon a maximum rate of interest on current accounts and fixed deposits.

Recently, the Bank undertook to float three public Loans for Development totalling L.E. 25 million: one a five year loan of L.E. 5 million at $2\frac{1}{2}\%$, the second of L.E. 10 million redeemable in ten years with interest at 3% and the third a 15 year loan of L.E. 10 million at $3\frac{1}{2}\%$. All three loans were fully subscribed in a very short time.

The Bank, in collaboration with the other banks, has carried out the scheme of founding an institute of Banking Studies in order to raise the vocational standard of bank employees. Lectures started at the Institute last January and genuine interest has been shown by bank employees to pursue their studies there.

The Money Supply

At 31st December 1954, the money supply stood at the provisional figure of L.E. 444 million compared with L.E. 420 million at the close of 1953, registering an increase of L.E. 24 million or 6% approximately. This may be contrasted with the contraction of 8% and 1% which took place in 1952 and 1953 respectively. This contraction was due to the substantial deficit in the balance of payments as well as the efforts to combat the temporary inflation coinciding with the Korean crisis.

We may record the developments of the components of the money supply as follows: Note circulation decreased from L.E. 190 million at the end of 1953 to L.E. 189 million at 31st December 1954. Conversely deposits increased from L.E. 230 million at 31st December 1953 to L.E. 255 million approximately at 31st December 1954.

It is obvious from the above that almost the whole increase in the money supply was due to the growth of deposits. The counterpart is mainly to be found in an increase in advances of about L.E. 34 million to the private sector partially compensated by a reduction in Treasury Bills of about L.E. 10 million.



The Budget

It was possible to balance the ordinary budget of the State for the year 1954/55. Receipts and expenditure have been estimated at L.E. 228 million each, i.e. L.E. 31 million more than the estimates for the financial year 1953/54. The increase in expenditure is mainly due to the expansion of the Government oil refinery at Suez, social reforms and defence expenses. This increase was met by the larger receipts which will accrue to the Government from the sale of petroleum products, from customs duties and from the confiscated property of the Mohamed Aly family.

The development budget, which is supplementary to the ordinary budget, is estimated at L.E. 42 million, of which L.E. 12 million are allotted to irrigation and drainage projects. However, it is important to mention that, owing to the delay in carrying out some of the projects since the preparation of the development budget in March 1953, some unused credits were carried forward. Consequently, up to the beginning of the current financial year, credits for the development budget totalled L.E. 36 million, while actual expenditure up to the end of last November did not exceed L.E. 23 million. The current budget of L.E. 42 million therefore includes unspent credits previously allotted to projects that have not yet been carried out. Now that the preparatory stage with its administrative difficulties has come to a close, it is expected that the execution of the development projects will materialise on time.

On the other hand, a number of supplementary budgets totalling L.E. 33 million are allotted to the Agrarian Reform, the Insurance and Savings Fund for Government employees, the School Construction Institution and public services. Special receipts and credits from the ordinary budget have been allotted to meet these categories of expenditure.

We take this opportunity to note with satisfaction the distinct improvement in the relations between tax payers and the Taxation Department. Their differences are now settled more readily and with greater understanding than before. This salutary development is only a beginning, for it is hoped that steps will soon be taken to revise taxation laws in order to simplify their formulae and modify them in a manner compatible with greater equity. A special committee has been set up in the Taxation Department to examine the different proposals submitted for this purpose.

The Sudan

Last year the economic situation of the Sudan was affected by the fact that a large part of the cotton-crop of the 1953/54 season (328,000 cantars at 31st December 1954 out

of a total of 1,853,000 cantars), remained^{va} unsold. About 25% of this stock is in the hands of the Gezira Board, 7% with the cultivators while the remainder is held by exporters. This carry-over has not only adversely affected the general economic activity of the country as well as its balance of payments and public finance, but will also weigh upon the new crop which is estimated at 2 million cantars.

Such developments naturally had an effect on foreign trade. In 1954 the value of exports amounted to L.E. 40 million, compared with L.E. 44 million in 1953. Imports amounted to L.E. 48 million against L.E. 51 million the previous year. Thus there was a deficit of L.E. 8 million in the balance of trade, and it might perhaps have been greater if the Government had not curtailed its own imports by about L.E. 4 million.

The budgetary receipts for 1954/55 were estimated at about L.E. 32 million, i.e. 14% more than in the previous budget. Although the budget is balanced, the slow disposal of the cotton-crop will probably retard the inflow of budgetary receipts. This may unbalance the budget and matters could only then be adjusted by halting the execution of some Government projects.

The Government continues to aid farmers, companies and agricultural co-operative societies towards a more extensive reclamation of cultivable land.

The above-mentioned trends in the economic conditions of the Sudan substantially affected the activities of our branches there. However, contrary to the policy we are pursuing in Egypt, we have not restricted our commercial business in the Sudan and we have thus played a large part in financing the cotton-crop. The difficulty of exporters in selling their stocks has resulted in our advances being granted for longer periods. Loans granted to commercial banks have considerably increased, totalling L.E. 1,900,000 at 31st December 1954, and have been carried forward for financing the 1955/56 crop.

The Bank continues to find scope for its activities in the Sudan, financing crops other than cotton, e.g. gum Arabic and furthering the import trade.



Balance
Sheet.

Certain modifications have been made in the headings of the Balance Sheet, in order to provide a clearer picture of the various accounts.

In both the Issue and Banking Departments, Treasury Bills are now shown separately from Government securities, and both headings are further sub-divided into Egyptian and Foreign. Advances to Commercial Banks in Egypt and the Sudan, on the assets side, and Commercial Banks in Egypt and the Sudan, on the liabilities side, represent the accounts, debtor and creditor, of Banks registered in accordance with the Central Bank Law.

Other advances have been grouped under one heading. The clearing and other accounts opened in accordance with payments agreements with foreign countries are now shown under separate headings on the assets and liabilities sides. Contra Accounts, Debtor and Creditor, are given at the side, and the balances are not included in the total of the balance sheet.

The total of the Balance Sheet which we present to you today, as at the 31st December 1954, amounts to L.E. 189,694,781 showing an increase of L.E. 4,155,901 compared with the total on 31st December 1953, after taking into account the adjustment for contra accounts no longer included as mentioned above.

Current Deposits and Notice accounts, together with clearing accounts which were shown under the same heading in 1953, show an increase of L.E. 4,590,028 largely in semi-governmental accounts.

Commercial Banks in Egypt and the Sudan show a reduction of L.E. 5,306,119. The Egyptian Government ordinary account shows a fall of L.E. 2,394,431 whilst the Special Treasury Bills Account remains unchanged. The Sudan Government Account shows an increase of L.E. 6,329,096.

On the assets side, Egyptian and Foreign Government Treasury Bills show a decrease of L.E. 16,964,199 mostly in Egyptian and British Treasury Bills. On the other hand, Egyptian and Foreign Government Securities and Other Securities are up by L.E. 6,968,376.

Our Advances to Commercial Banks in Egypt and the Sudan stood at L.E. 12,940,000 (of which L.E. 1,900,000 in the Sudan) as against L.E. 4,050,000 at the end of 1953. This increase is due to the more extensive financing of the cotton crop by banks and also to the smaller exports of cotton entailing the carrying of greater stocks under advance at the end of the year.

The Board.

I regret to inform you that Mr. G. Allemann's term expires today and that Article 26 of the Central Bank Law does not permit his re-election.

As a result of the promulgation of a Law modifying certain provisions of the Company Law, in particular the new clause which forbids individuals to serve on the Board of more than one Bank, Messrs. Marcel Vincenot and Yussouf Zulficar have resigned from the Board of the National Bank of Egypt.

Last year the Board co-opted Mr. Abdel Galeel El Emary, Managing-Director of the Banque Misr, but in view of the afore-mentioned Law he has resigned.

Also, Mr. Taher El Lozy, whose term expires today, has resigned as a result of this Law.

On behalf of the Board I take this opportunity to express our thanks to all retiring members for their invaluable assistance. My colleagues and I will always have the happiest memories of their faithful collaboration.

Last year the Board also co-opted two new members, Dr. Helmy Bahgat Badawi and Mr. Sayed Marei. You are now kindly requested to give your confirmation.

Dr. Helmy Bahgat Badawi, a former Minister of Commerce and Industry, is a leading authority on economics and his experience thoroughly fitted him for membership of the Board. Mr. Sayed Marei, who has supervised the implementation of the Agrarian Reform Law with outstanding efficiency will give us the benefit of his experience in rural economy.

Finally, Mr. Mohamed Ahmed Farghaly is due to retire from the Board today and offers himself for re-election.

Other Advances are down by L.E. 5,139,751 due to the transfer of clearing and other accounts to the new heading. Foreign Bankers and Money at Call are up by L.E. 1,685,021.

The item Premises stands unchanged at L.E. 100,000. During the course of the year we have completed our new building at Heliopolis and our office has been installed there now for some months. We have demolished the two buildings which we acquired in Sharia Cherif and Sharia El Bank El Watani, and hope to begin the construction of our new premises shortly. We have made a further provision to meet the eventual cost, which amount has been completely written off.

Our Profit and Loss Account shows a gross profit of L.E. 2,404,298 against L.E. 2,258,884 for the previous year; an increase of L.E. 145,414 is to be noted. On the other side, expenses amounted to L.E. 1,773,533 compared with L.E. 1,622,648, an increase of L.E. 150,885 due mainly to greater taxation.

The net profits amount to L.E. 630,765 compared with L.E. 636,236 in 1953. This enables us to propose to you the payment of a dividend at the same rate for last year, viz. 20%. This distribution will absorb L.E. 600,000 leaving L.E. 30,765 to be added to the carry-forward.

We are pleased to say that during 1954, the market for Government securities both in Egypt and in London was firm and, therefore, our portfolio shows a substantial margin over the value shown in the balance sheet. We have, however, continued our policy of making allocations to our various inner reserves, so as to strengthen further the position of the Bank.

You will have observed early this year that the rise of $1\frac{1}{2}\%$ in the Bank of England's discount rate caused an immediate, though temporary, fall in British Government stocks. To be prepared for such eventualities it behoves us to continue our policy of prudence in the constitution of our reserves.



In conclusion, I take this opportunity to express my warm thanks to all members of our staff who have served the Bank with untiring zeal and unswerving loyalty.

NATIONAL BANK OF EGYPT

COMPARATIVE

POSITION AT THE

ISSUE

LIABILITIES		1948	1949
		L.E.	L.E.
Notes Issued		164,000,000	174,000,000
Reserve		—	—
ASSETS			
		164,000,000	174,000,000
Gold		6,375,874	6,375,874
Egyptian & Foreign Government Treasury Bills and Securities		157,624,126	167,624,126
		164,000,000	174,000,000
BANKING		1948	1949
		L.E.	L.E.
Capital		2,925,000	2,925,000
Reserves		2,925,000	2,925,000
Government Deposits		45,583,705	72,720,120
Egn. Govt. Treasury Bills - Special a/c		35,000,000	40,000,000
Egn. Govt. Treasury Bills - Special a/c (Law 294 of 1952)		—	—
Egn. Govt. Treasury Bills - Special a/c (Law 296 of 1953)		—	—
Other Deposits		100,895,140	88,478,411
Bankers		42,858,572	24,049,160
Other Accounts		18,464,540	14,293,440
		248,651,957	245,391,131
LIABILITIES		1948	1949
		L.E.	L.E.
CASH: N.B.E. Notes		10,164,085	7,834,323
Other Notes and Coin		186,082	148,544
		10,350,167	7,982,867
ASSETS			
		35,897,615	57,015,598
Foreign Bankers and Correspondents and Money at Call		176,600,114	149,420,466
Investments		8,164,666	17,295,977
Advances to the Egyptian Government		149,952	278,042
Advances		17,489,443	13,398,181
Bills		—	—
Other Accounts		—	—
		248,651,957	245,391,131

NK OF EGYPT

FIGURES

31st DECEMBER

DEPARTMENT

		1950	1951	1952	1953	1954
		L.E.	L.E.	L.E.	L.E.	L.E.
		191,000,000	211,000,000	209,000,000	194,000,000	195,000,000
		—	11,760,712	11,760,712	—	—
		191,000,000	222,760,712	220,760,712	194,000,000	195,000,000
		6,375,874	60,552,607	60,552,607	60,552,607	60,552,607
		184,624,126	162,208,105	160,208,105	133,447,393	134,447,393
		191,000,000	222,760,712	220,760,712	194,000,000	195,000,000
DEPARTMENT		1950	1951	1952	1953	1954
		L.E.	L.E.	L.E.	L.E.	L.E.
		2,925,000	3,000,000	3,000,000	3,000,000	3,000,000
		2,925,000	3,000,000	3,000,000	3,000,000	3,000,000
		61,375,579	40,115,191	1,934,519	8,016,201	15,676,418
		60,000,000	80,000,000	70,000,000	55,000,000	55,000,000
		—	—	7,855,854	1,687,705	—
		—	—	—	2,037,849	—
		88,866,006	66,994,899	63,378,814	71,896,868	68,602,834
		31,287,302	51,487,025	38,157,886	38,824,934	33,518,815
		22,583,097	35,558,122	32,597,472	27,036,686	10,896,715
		269,961,984	280,155,237	219,924,545	210,500,243	189,694,782
DEPARTMENT		1950	1951	1952	1953	1954
		L.E.	L.E.	L.E.	L.E.	L.E.
		7,098,743	10,082,746	8,483,047	9,825,521	12,604,814
		157,507	144,600	206,597	119,156	100,288
		7,256,250	10,227,346	8,689,644	9,944,677	12,705,102
		50,324,155	30,015,181	19,556,745	18,068,143	19,753,165
		143,168,550	176,552,224	131,768,359	139,435,137	129,439,314
		—	—	4,872,214	—	—
		31,917,641	28,998,840	22,413,233	17,091,073	25,597,987
		487,013	306,968	884,080	152,476	1,396,254
		36,808,375	34,054,678	31,740,270	25,808,737	802,960
		269,961,984	280,155,237	219,924,545	210,500,243	189,694,782